

Baker Talc Limited

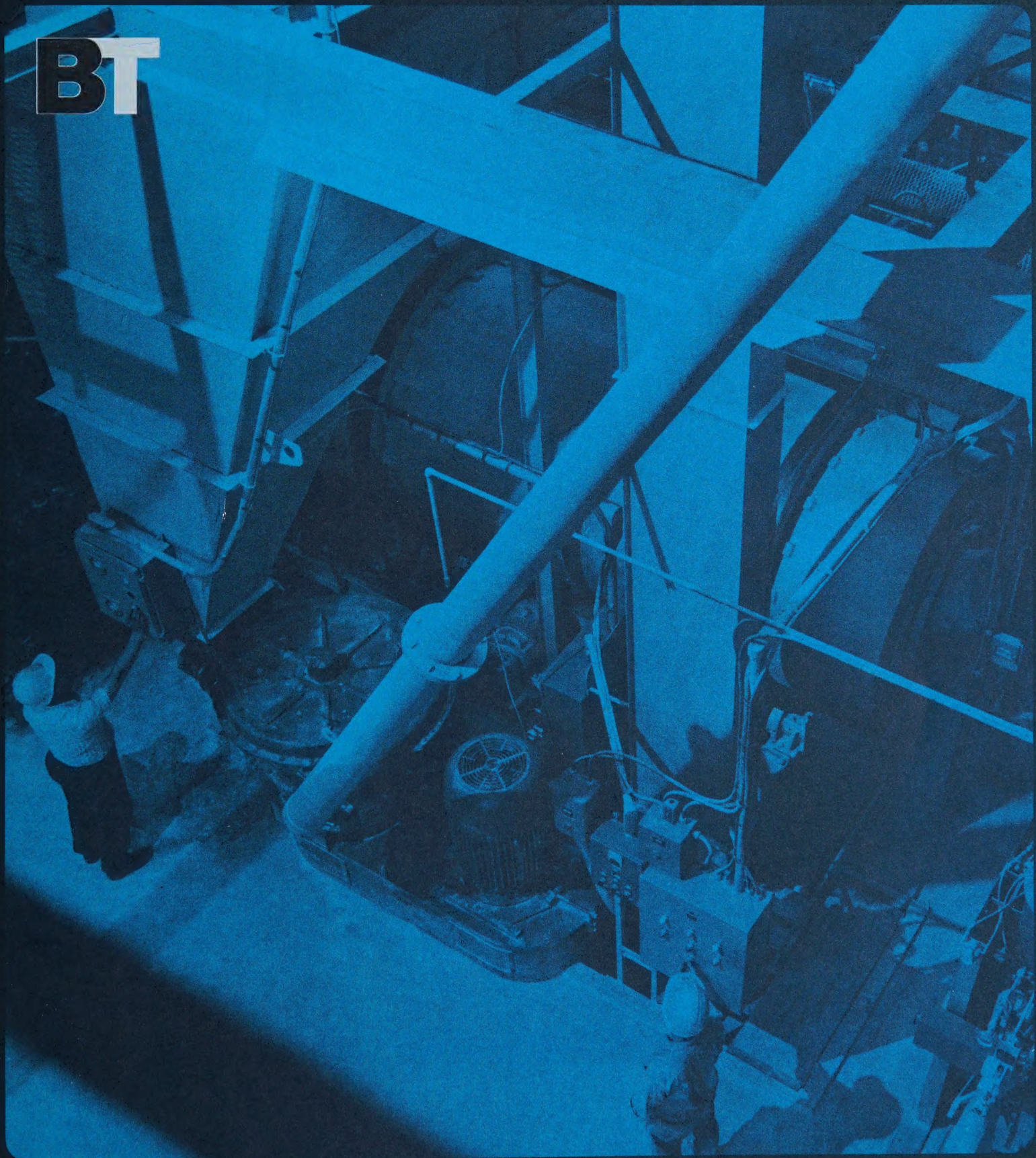
(No Personal Liability)

Annual Report

For the year ending
February 28, 1970

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Officers

Chairman of the Board:
R. P. Mills

President:
J. H. Morgan, Ph. D.

Secretary-Treasurer:
J. O. Sabourin, F.C.I.S.

Directors

J. McG. Home, Q.C.,
Westmount, Quebec

Ian C. Miller,
Montreal, Quebec

R. P. Mills,
Westmount, Quebec

J. H. Morgan, Ph. D.,
Montreal, Quebec

J. O. Sabourin, F.C.I.S.,
Pointe Claire, Quebec

Registrar and Transfer Agent

Administration & Trust Company,
10 St. James Street West,
Montreal 126, Quebec.

Auditors

Price Waterhouse & Co.

Head Office

Suite 400, 621 Craig St. W.,
Montreal 101, Quebec.
Telephone No. 861-9233

Mine Office

Highwater, Quebec.

Cover:
New mill, showing Bauer micronizer, left;
bagging machine, right; rotary dryer in background.

Super Hi-Talc bag design will give strong product identification in industrial mineral field.

To the shareholders of Baker Talc Limited

Total sales for the year ending February 28, 1970 rose to \$148,695 from \$147,471 a year earlier, despite the general slowdown of the economy in the latter portion of the fiscal period. Talc production was 9,166 tons, down from 10,045 tons the previous year. Operating profit before amortization and depreciation was \$22,177; after deducting amortization and depreciation and adding interest on deposit receipts, net profit for the year was \$4,977 compared with \$7,864 in 1969. Depreciation charged in 1970 was \$23,020 against \$8,020 in 1969.

This past year was a significant one for your company. It marked the completion of a new mill to produce higher and more valuable grades of talc for sale to the paint and cosmetic industries. Underground development, opening up a second level at the Van Reet mine, was carried forward at an unprecedented rate.

The wet circuit of the new mill was started, and after test runs, a number of modifications were made. Improvements have been made to the total capacity of the new mill, the amount of product recovered and its grade by the addition of more flotation capacity. A thickener is being added to the circuit to improve filtration and the flexibility of the flotation process.

Production of saleable product has been delayed by problems of contamination in the drying process that follows filtration. These problems have been corrected, and the final source of contamination in the mill, the fuel oil used to heat the dryer, is being eliminated by the use of propane as a fuel.

Shaft sinking and the development of the second level at the Van Reet mine were completed during the year with the installation

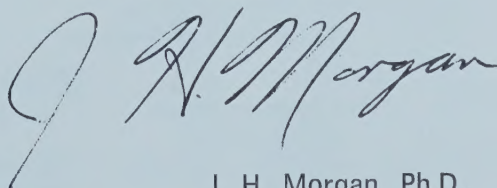
of automatic pumping facilities, a larger hoist and two loading pockets. A manway is being raised to the surface. Two headings being driven into the orebody will prepare it for production. Ore remaining in the pillars above the adit level will be removed in the summer months over the next two or three years.

Expenditures to date on equipment, buildings and installation of the new mill total \$137,000. Cost of deepening the shaft, development of the second level and equipment for the mine totals \$50,000.

The production of higher grade products, formerly not available from Canadian sources of supply, is now being achieved by your company. These new products, accompanied by a vigorous marketing effort, should markedly improve the profitability of your company over the next few years.

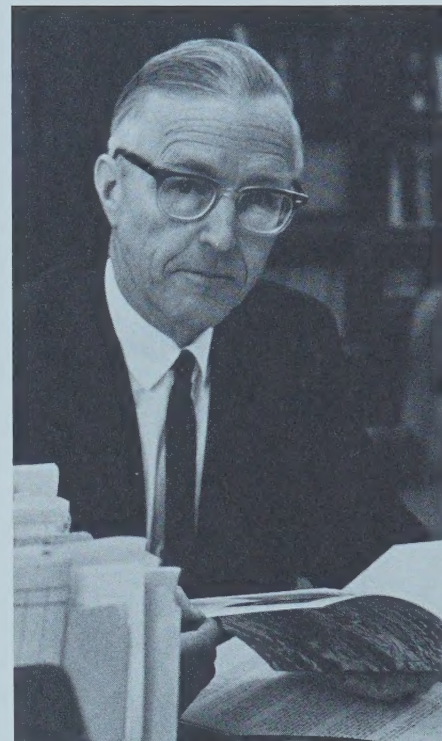
Your Directors submit for your consideration the attached financial statements for the year ending February 28, 1970. Notice of the Annual General Meeting of Shareholders, to be held in the Windsor Hotel, Montreal, Quebec, on the 14th day of July, 1970, is enclosed. A Proxy form, in case you cannot attend the Meeting in person, is included.

Respectfully submitted on behalf of the Board of Directors.



J. H. Morgan, Ph.D.,
President.

Montreal 101, Quebec,
June 15, 1970.



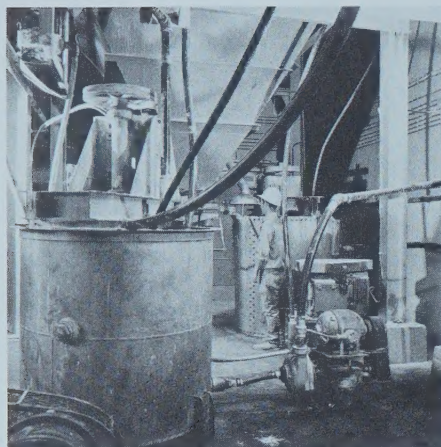
J. H. Morgan, Ph. D.

The Annual General Meeting of Shareholders will be held in the Blue Room, Windsor Hotel, Montreal, Quebec, on Tuesday, July 14, 1970, at 11:30 o'clock in the forenoon (Eastern Daylight Saving Time).

Baker Talc Limited

(No Personal Liability)

(Incorporated under
the Quebec Mining
Companies' Act on
January 21, 1952)



Talc is mixed with water . . .

Auditors' report

To the Shareholders of
Baker Talc Limited (No Personal Liability):

We have examined the balance sheet of Baker Talc Limited (No Personal Liability) as at February 28, 1970 and the statements of profit and loss and deficit and source and application of funds for the year then ended and have obtained all the information and explanations we have required. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion and according to the best of our information and the explanations given to us and as shown by the books of the company, these financial statements are properly drawn up so as to exhibit a true and correct view of the state of the affairs of the company as at February 28, 1970 and the results of its operations and the source and application of its funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Price Waterhouse & Co.
Chartered Accountants.

Montreal 113, Quebec,
May 16, 1970

BALANCE SHEET, FEBRUARY 28, 1970

Statement I

Assets

	1970	1969
Current assets:		
Cash on hand and in bank	\$ 18,198	\$ 2,614
Short-term deposit receipts	150,000	—
Accounts receivable	47,781	23,981
Inventory of talc, materials and supplies, at the lower of cost or net realizable value	7,628	8,584
Prepaid charges	1,791	490
	<u>225,398</u>	<u>35,669</u>
Investment — shares of a mining company	1	1
Fixed assets — at cost:		
Buildings and machinery (Note 7)	400,233	252,452
Railway siding	2,554	2,554
Truck	10,370	10,370
	<u>413,157</u>	<u>265,376</u>
Less: Accumulated depreciation	219,464	196,444
	<u>193,693</u>	<u>68,932</u>
Land, mineral rights, and mining claims held under development licenses (Note 1)	115,923	115,923
Deferred expenditures, at cost:		
Shared cost development project (Note 2) (Schedule A)	130,480	48,496
Less: Provided by the Department of Industry (P.A.I.T.)	65,240	24,248
	<u>65,240</u>	<u>24,248</u>
Development expenditures, less amounts written off (Schedule B and Note 6 (iii))	280,559	259,257
	<u>345,799</u>	<u>283,505</u>
Organization expenses	2,720	2,720
	<u>\$883,534</u>	<u>\$506,750</u>

Liabilities and capital

Current liabilities:			
Bank loan (partly secured)	—		\$ 15,000
Accounts payable and accrued charges	\$ 6,709		13,049
Accounts payable — associated company	23,902		22,755
Advances — related compay	—		8,000
	<u>30,611</u>		<u>58,804</u>
7% Convertible redeemable debentures, due February 1, 1976 (Note 3):			
Authorized	\$ 400,000		
Issued	44,800		—
Capital stock less deficit (Notes 3 and 4):			
Capital stock —			
Authorized —			
4,000,000 shares of \$1.00 par value each	\$4,000,000		
Issued —	Shares	Discount	Net
For net assets of predecessor company	182,090	\$ —	182,090
For cash	1,424,505	(1,007,700)	416,805
For debentures converted (Note 3)	473,600	(118,400)	355,200
	<u>2,080,195</u>	<u>\$(1,126,100)</u>	<u>954,095</u>
Deficit (Statement II)			145,972
			<u>808,123</u>
			<u>\$883,534</u>
			<u>\$506,750</u>

Signed on behalf of the board: R. P. MILLS, Director

J. H. MORGAN, Director

Statement of profit and loss and deficit for the year ended February 28, 1970

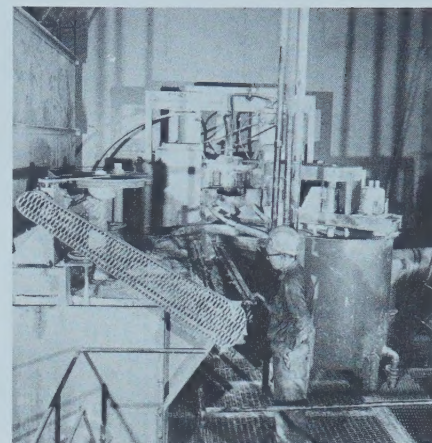
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Statement II	1970	1969
Sales	\$148,695	\$147,471
Cost of sales:		
Opening inventory	8,584	14,263
Mining	34,947	28,212
Milling and manufacturing	109,492	83,691
	153,023	126,166
Deduct: Charged to shared cost development project (Schedule A)	56,616	17,340
	96,407	108,826
Less: Closing inventory	7,628	8,584
	88,779	100,242
	59,916	47,229
Administration expenses:		
Interest and bank charges	13,863	640
Legal and audit	6,621	816
Management and administrative services (Note 5)	5,000	5,000
Reports to shareholders	3,372	1,728
Travelling	830	241
Taxes and licenses	1,084	868
Prospectus, fees and expenses	180	3,678
Transfer agent's fees	1,960	1,633
Public relations and advertising	2,543	1,318
Cost of share certificates	—	1,328
Office expenses and supplies	2,023	—
Miscellaneous	263	1,504
	37,739	18,754
Profit before deducting the undernoted items	22,177	28,475
Amortization of development expenditures incurred in talc operations, at \$1.25 per ton	11,456	12,591
Depreciation	23,020	8,020
	34,476	20,611
Net profit (Loss) from operations	(12,299)	7,864
Other income: Interest on deposit receipts	17,276	—
Net profit for the year (Note 6)	4,977	7,864
Deficit at beginning of year	150,949	158,813
Deficit at end of year (Statement I)	\$145,972	\$150,949

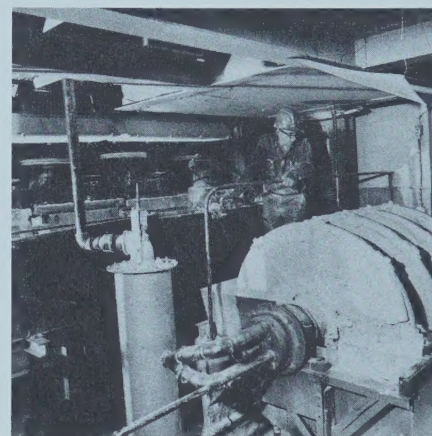
Shared cost development project expenditure at February 28, 1970

Schedule A

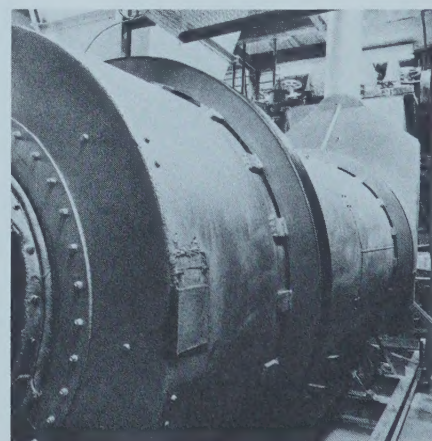
	Balance March 1, 1969	Expended during the period	Balance February 28, 1970
Incurring by Ferro-Magnetics Limited on behalf of Baker Talc Limited:			
Salaries	\$12,682	\$11,032	\$23,714
Plus 50% for overhead	6,341	5,516	11,857
	19,023	16,548	35,571
Rent of separator	10,155	5,972	16,127
Costs incurred in relocating separator	946	—	946
Reflection meter for color evaluation	700	—	700
Miscellaneous expenses	302	2,357	2,659
	31,126	24,877	56,003
Incurring by Baker Talc Limited:			
Salaries	11,560	37,744	49,304
Plus 50% for overhead	5,780	18,872	24,652
	17,340	56,616	73,956
Miscellaneous expenses	30	491	521
	17,370	57,107	74,477
Total costs incurred	48,496	81,984	130,480
Less: Received or receivable from Department of Industry (P.A.I.T.)	24,248	49,992	65,240
Balance per balance sheet — Statement I	\$24,248	\$40,992	\$65,240



... goes through Jones Wet Magnetic Separator, rear, flotation cells on left ...



... second stage flotation, background, then filter ...



... into rotary dryer ...

Baker Talc Limited

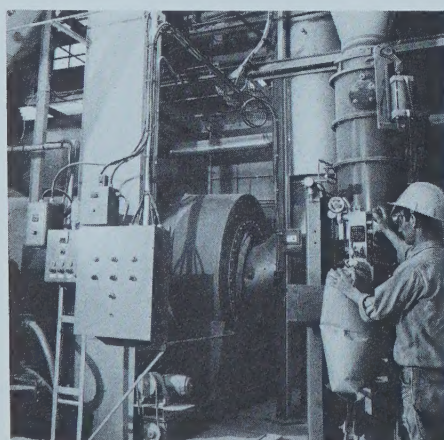
(No Personal Liability)



... to dust collector ...



... into micronizer next to Georges Daigle,
manager ...



... to bin feeding bagger ...

Statement of development expenditures from March 1, 1969 to February 28, 1970

Schedule B

	Balance March 1, 1969	Expended during the period	Balance February 28, 1970
Wages	\$132,193	16,408	148,601
Supplies	30,695	4,276	34,971
Repairs	11,390	898	12,288
Travelling expenses	698	113	811
Transportation	8,414	713	9,127
Miscellaneous	2,628	433	3,061
Taxes, fees and licenses	3,718	470	4,188
Engineering	26,318	—	26,318
Rental of equipment	3,783	306	4,089
Assays	2,683	—	2,683
Automobile expenses	3,417	—	3,417
Diamond drilling:			
Wages	1,362	—	1,362
Supplies	1,555	91	1,646
Contract	50,315	—	50,315
Dynamite and caps	23,048	1,954	25,002
Buildings and equipment	15,229	3,752	18,981
Administration	5,066	—	5,066
Trucking:			
Wages	804	—	804
Supplies and repairs	1,245	—	1,245
Electricity	15,277	1,877	17,154
Geophysical surveys	4,727	—	4,727
Dry room	296	—	296
Commissary supplies	2,147	—	2,147
Telephone and telegraph	851	164	1,015
Unemployment insurance	1,055	124	1,179
Workmen's compensation	4,258	481	4,739
Insurance	6,564	526	7,090
Mining rights abandoned	1,250	421	1,671
Quebec Pension Plan	249	(249)	—
Development expenses from incorporation to February 29, 1952	42,902	—	42,902
	404,137	32,758	436,895
Less: Written off to profit and loss	144,880	11,456	156,336
Balance per balance sheet (Statement I)	\$259,257	21,302	280,559

Summary

Incurred by prior interests	\$ 42,902	—	42,902
On talc mining rights	231,123	31,943	263,066
On Chibougamau claims	71,955	—	71,955
On mining rights and options abandoned	17,233	—	17,233
Undistributed	40,924	815	41,739
As above, before write-off to operations	\$404,137	32,758	436,895

Statement of source and application of funds for the year ended February 28, 1970

Source:	1970	1969
Net profit for the year	\$ 4,977	\$ 7,864
Depreciation	23,020	8,020
Amortization of development expenditures	11,456	12,591
	39,453	28,475
Sale of debentures	400,000	—
Funds available	439,453	28,475
Application:		
Fixed asset additions	147,781	6,925
Deferred expenditures	73,750	43,341
Funds applied	221,531	50,266
Net increase (decrease) in working capital	\$217,922	\$(21,791)
Working capital at beginning of year	\$(23,135)	\$ 1,344
Working capital at end of year	194,787	(23,135)
Net increase (decrease) as above	\$217,922	\$(21,791)

Notes to financial statements, February 28, 1970

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Note 1:

The amount at which the mining rights are recorded does not, and does not purport to, represent their present or future value.

Note 2:

The company entered into an agreement with the Department of Industry (Program for Advancement of Industrial Technology in Canada) dated September 29, 1967 whereunder the department undertakes to provide funds up to 50% of the reasonable and proper cost of a research project, the purpose of which is to develop suitable methods for producing high quality talc from ores mined by the company. This undertaking of the Department is limited to \$132,975.

If the company or any licensee of the company sells or uses commercially products resulting from the project, or which contain results of the project or which are manufactured by means of new processes or equipment resulting from the project, the company will repay the sum advanced to it by the department on account of the development project, together with interest thereon at prevailing rates compounded annually.

The cost of the project at February 28, 1970 was \$130,480 (Schedule A).

Note 3:

Pursuant to a resolution of the Board of Directors on November 6, 1968, 7% convertible redeemable debentures in aggregate principal amount of \$400,000 were created. They were fully subscribed and paid in March 1969.

The debentures are severally dated the date of their issue; are redeemable at par in whole or in part at any time after February 1, 1971; and mature on February 1, 1976. They constitute a first floating charge to and in favour of the Trustee on the undertaking of the company, its property and assets. The debentures are convertible at the option of the holder into fully paid and non-assessable common shares of the company at the following rates for each \$100 principal amount:

1. On or before January 31, 1970
— 133 $\frac{1}{3}$ Common shares
2. February 1, 1970 to January 31, 1972
— 100 Common shares
3. February 1, 1972 to January 31, 1974
— 66 $\frac{2}{3}$ Common shares
4. February 1, 1974 to January 31, 1976
— 50 Common shares

During the year ended February 28, 1970, \$355,200 of the debentures were converted into 473,600 shares of capital stock at the rate of 133 $\frac{1}{3}$ shares per \$100 principal amount.

Note 4:

By resolution of the shareholders on July 14, 1969, options were granted, subject to qualification of the company under applicable statutes, to senior personnel of the company to purchase a total of 20,000 shares of capital stock at 75¢ per share for a period of three years from March 12, 1969, provided that no more than 33 $\frac{1}{3}$ % be exercised in any one year. Any unsubscribed balance is to be cumulative to the termination date. The optionee must be an employee of the company at the time of exercising his option.

No options had been exercised at February 28, 1970.

Note 5:

The company is a party to an agreement with a service corporation which provides office accommodation and management services — geological, engineering and administrative. Fee paid to this corporation during the year ended February 28, 1970 amounted to \$12,000 of which \$7,000 is charged to milling and manufacturing and \$5,000 to management and administrative services. The three principal shareholders of the service corporation are the Chairman, the President and the Secretary-Treasurer of Baker Talc Limited (No Personal Liability).

Note 6:

(i) No provision has been made for income taxes for the year due to losses carried forward from previous years.

(ii) The undepreciated capital cost of fixed assets, for tax purposes, exceeds the net book value of these assets by approximately \$160,000. This amount is available to be applied against future taxable income.

(iii) The net value at which deferred development expenditures are carried on the books of the company exceeds by approximately \$130,000 the amount of such expenditures available to be written off for tax purposes. This difference represents expenditures recorded and claimed by the company in previous years but considered by the taxation department as not deductible for income tax purposes.

Note 7:

By resolution of the Board of Directors on March 12, 1969, approval was given to building an addition to the mill and to purchasing additional equipment, estimated at \$250,000. Approval was also given to deepening the shaft at an estimated cost of \$50,000.

Expenditures of the Company made during the year ended February 28, 1970 amounted to \$128,609 for additions to the mill and equipment and \$19,172 for deepening the shaft.



... for shipment in bags to customers.

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BAKER TALC LIMITED

(NO PERSONAL LIABILITY)

621 CRAIG STREET WEST, SUITE 400, MONTREAL 3, QUEBEC
TEL.: AREA CODE (514) 861-9233

MINE AND MILL: HIGHWATER, QUEBEC

FOR RELEASE: MONDAY, 30 June, 1969.

BAKER TALC SALES UP 31% TREND CONTINUES THIS YEAR

Montreal, June 30 -- Sales for Baker Talc Limited rose 31 per cent to \$147,471 in the year ended February 28, 1969, Dr. J. H. Morgan, president, told shareholders in the company's annual report recently released. Sales a year earlier were \$112,244.

Talc production in the 1969 period was 10,045 tons, compared with 8,131 tons in 1968.

Operating profit before amortization and depreciation was \$28,475, and net profit was \$7,864, up from a loss of \$7,934 in the previous fiscal year, Dr. Morgan said.

"So far this year sales have continued to increase with expanding use of talc in both building materials and pipeline coatings," he said. "The market for soapstone blocks to schools and art shops for carvings shows consistent growth. Prices of ground talc were again increased by approximately 10 per cent in April, 1969, to cover the necessary increases in wages, salaries and supplies."

Dr. Morgan said the issue of \$400,000 principal amount of 7 per cent convertible debentures offered to shareholders at par in January, 1969, was heavily oversubscribed, making it necessary to cut down a number of the larger subscriptions in order to limit the issue to the authorized amount

He said that Baker Talc management was encouraged by the confidence shown by shareholders in taking up the issue. The funds received are being used to build a new mill incorporating a Jones Wet Magnetic Separator to produce high quality talc for the paint and cosmetic industries.

The mill is designed to produce 10 tons per day on a one-shift basis. Production can be doubled when sales warrant, by operating two shifts per day. Dr. Morgan said production of the new grades of talc is expected by October, if there are no unforeseen delays in equipment delivery.

The new process, developed by Ferro-Magnetics Ltd., a subsidiary of Magnetics International Ltd., will improve the reflectivity of Baker talc from 78 per cent to 88 per cent, allowing the company to compete in markets where current prices range from \$70.00 to \$130.00 per ton. Baker Talc's present products sell from \$11.50 to \$24.20 per ton, f.o.b. Highwater, Que.

Dr. Morgan said the inclined shaft at the Van Reet mine has been sunk to the second level, 125 feet vertically below the first level. Ore reserves are adequate for 15 to 20 years.

The company's annual meeting of shareholders will be held at 11:30 a.m., July 14, 1969, at the Windsor Hotel, Montreal, Quebec.

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ISSUED BY: Dr. J. H. Morgan,
President,
(514) 861-9233.

PUBLIC RELATIONS COUNSEL: John A. Gibson,
(514) 467-5681.

